ECONOMIC DIVISION

MONTHLY ECONOMIC REVIEW

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DEPARTMENT OF ECONOMIC AFFAIRS
सत्यमेव जयते

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ABSTRACT

India's economic momentum was sustained in the first quarter of FY25. With a cumulative real GDP growth of around 27 per cent from FY21, the economy had not only regained the ground lost during the pandemic but also achieved transformational changes in many productive sectors by the end of FY24. Building on this base, India's GDP at constant prices grew by 6.7 per cent in Q1FY25. Growth in all major non-agricultural sectors stayed well above 5 per cent in Q1, indicating broad-based expansion. With the advancing monsoon, kharif sowing has also picked up, brightening prospects of agricultural production.

Mirroring the strong build-up in productive activity, the major components of aggregate demand, including private consumption, fixed investment and exports, have picked up pace. Owing to the general elections during April-June, the general government expenditure is gathering pace only gradually in the current financial year. Despite this, the overall investment grew by 7.5 per cent in Q1, indicating the strengthening of the private investment cycle. Most-high-frequency indicators on the supply side suggest continuing economic expansion in the current quarter. Steady growth in GST collections, expansionary trends in purchasing managers' indices and growth in air and port cargo indicate vigorous economic activity.

Global trade dynamics are rapidly evolving. Geopolitical conflicts, trade disputes, climate change, and advances in Artificial Intelligence are reshaping the contours of international trade in terms of protectionist trade policies and shifting global supply chains. Amidst these developments, the World Trade Organisation has projected that global trade will grow gradually in 2024 and 2025. India's export of goods, even after accounting for the decline in the prices of petroleum products, has grown negligibly in the first five months of the year compared to the same period last year. It reflects weak global demand and India's persisting challenges with scaling up production, productivity and competitiveness. At the same time, strong domestic demand meant that merchandise imports grew well. However, urban consumption shows some signs of weakness, evident in the decline in automobile sales in the first five months of the current financial year compared to the same period last year. Capital flows have remained steady, and FDI inflows have increased. Foreign portfolio investors remained net buyers over April – August 2024. Driven by stable capital inflows, foreign exchange reserves have reached historically highest levels.

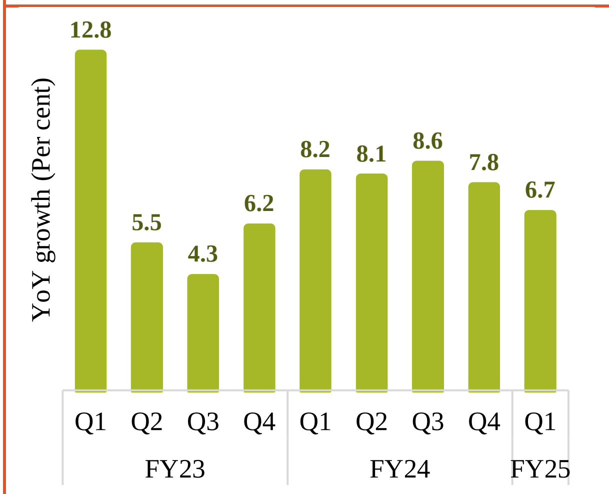
Labour market conditions continue to improve. Net payroll additions under EPFO witnessed an upswing in the quarter ending June 2024, signalling a rebound in formal job creation. Headline retail inflation remained benign in August 2024 at 3.7 per cent, with softening food inflation and steady core inflation. While replenished reservoir levels and higher kharif sowing acreage augur well for the food price outlook, the effect of the skewed spatial distribution of the monsoon warrants monitoring. On balance, as public expenditure picks up and the rural economy strengthens, the overall growth is expected to remain steady in the subsequent quarters.

INDIAN ECONOMY DEMONSTRATES RESILIENCE AMID GLOBAL CHALLENGES

1. The World Economic Outlook of the IMF released in July 2024 projected global growth to be 3.2 per cent in 2024, a shade lower than the pre-pandemic decade. Relative to the April 2024 projections of the IMF, the first quarter growth surprised many countries on the upside. Gradual cooling of labour markets, together with an expected decline in energy prices, can bring global levels of headline inflation back to the target levels by the end of 2025. Global trade moderated due to rising geopolitical tensions, cross-border restrictions, supply chain disruptions and slower growth in advanced economies. Developments in the services trade have been more upbeat, partly offsetting the decline in goods trade. Trade growth is expected to recover in FY25 and align with global GDP growth again.

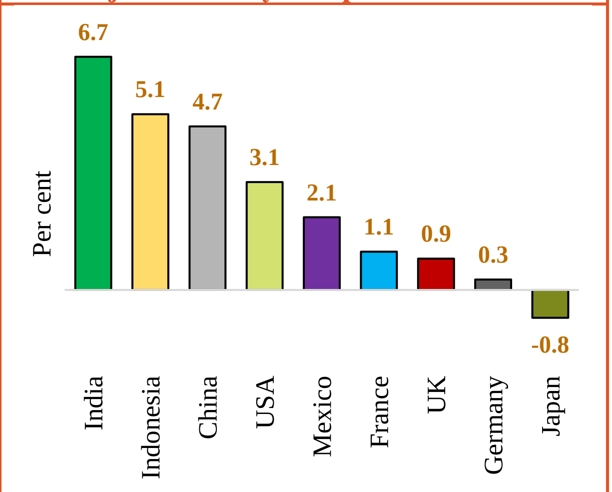
2. Data released by the National Statistical Office has estimated that India's GDP grew by 6.7 per cent at constant prices in Q1 FY25. India's growth, which surpassed that of major advanced and emerging economies, remains steady in the face of ongoing global headwinds. It is important to exercise caution while interpreting economic growth rates in the post-Covid years. In India's case, after the pandemic-inflicted, short-lived downslide, pent-up consumption and investment demand gave an immediate boost to growth in FY22 and FY23, which carried forward to FY24. Growth averaged 8.3 per cent in these three years. We have analysed these patterns and concluded that the gap between the current GDP and its pre-pandemic trend has been progressively closing. The GDP level was close to the pre-pandemic trajectory in Q4FY24. Thus, the growth rate of 6.7 per cent achieved in Q1FY25 on a reasonably high base and amidst an unfavourable external demand situation is a sign of the underlying dynamism and strength of the Indian economy.

India grew by 6.7 per cent in Q1 of FY25



Source: NSO, MoSPI

India emerged as the fastest-growing major economy in April-June 2024



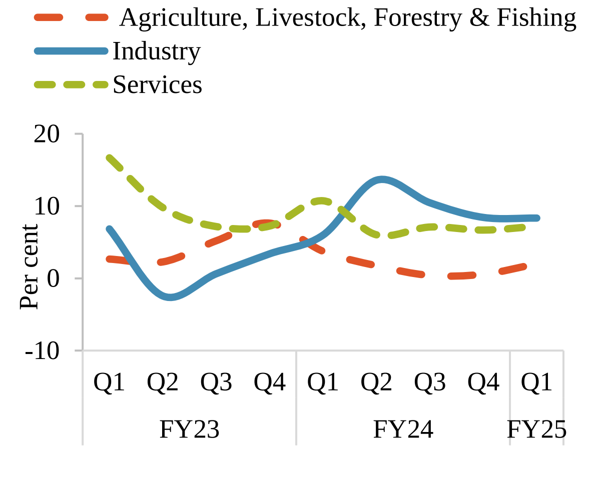
Source: OECD, MoSPI for India

3. Robust domestic consumption and investment underpinned GDP growth in Q1. Private final consumption expenditure (PFCE) and gross fixed capital formation (GFCF) at constant prices grew by 7.4 per cent and 7.5 per cent, respectively, while exports (of goods and non-factor services) increased by 8.7 per cent. The share of private final consumption in GDP (at current prices) rose to 60.4 per cent in Q1 of FY25 from 57.9 per cent in Q4 FY24, while the shares of GFCF and exports remained steady.

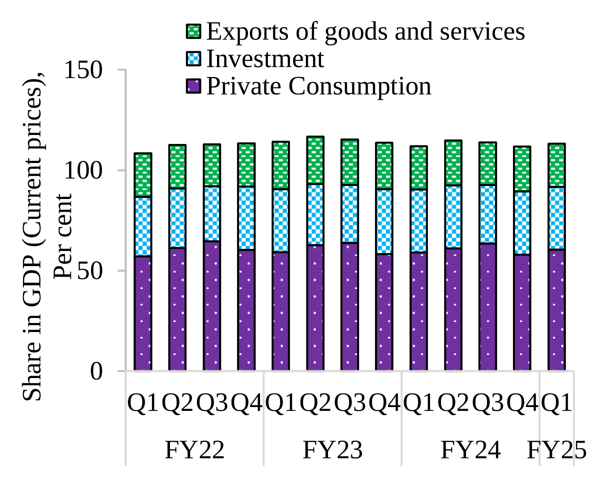
The decline in the urban unemployment rate and improvements in rural incomes contributed to consumption growth. According to the Federation of Automobile Dealers Association's August 2024 press release[1], retail sales of vehicles in rural areas have picked up by 4.8 per cent in August on a YoY basis. On the GFCF front, it is clear that household and private investment supported the growth, as the capital expenditures of both the Union and state governments were lower in Q1 FY25 because the period was an election quarter. Government expenditure is poised to improve in the upcoming quarters.

4. On the supply side, real gross value added (GVA) grew by 6.8 per cent in Q1FY25, with the industry and services sector displaying resilience. Agricultural GVA at constant prices grew at 2.0 per cent YoY, mostly reflecting the impact of the adverse weather conditions that prevailed during the previous year. As the effect of favourable and more even distribution of monsoon gets captured in this year's output, the overall agricultural output in the subsequent quarters is likely to strengthen.

Industry pushes ahead in Q1 of FY25



Private Consumption and Investment were major growth drivers



Source: NSO, MoSPI

5. The industrial sector grew by 8.3 per cent at constant prices in Q1FY25. The growth in the sector is supported by manufacturing, which grew by 7 per cent in real terms. The construction sector performed well, registering a YoY growth of 10 per cent in Q1 of FY25.

[1] FADA August Press release- https://tinyurl.com/3ntahts2

6. The services sector saw continued robust growth, showcasing a real growth of 7.2 per cent in Q1 of FY25. The expansion in the services sector is evident in robust PMI readings, a surge in digital transactions, a rise in foreign tourism, and heightened cargo traffic. The real estate sector is also drawing an increasing number of participants. The JLL Global Real Estate Transparency Index 2024[2], highlighted that India's Tier-I markets have entered the 'transparent' zone for the first time with a composite score of 2.44. India is the top global improver in the real estate transparency index. Greater data coverage and improved quality in core and niche property sectors, more proactive financial regulators, new climate risk disclosure guidelines, streamlined building regulations and digitised land records have contributed to its leading cities entering the 'Transparent' tier.

7. Increasing institutional participation and a push for transparency have led to the adoption of best industry practices in India's commercial real estate market. Four existing listed Real Estate Investment Trusts (REITs) have driven growth in stabilised commercial assets, while standardised market valuation processes and REIT regulations have fostered market-based approaches. While the Real Estate Regulation Act and the Insolvency and Bankruptcy Code have improved investor protection, digital land registry records and strict monitoring by RBI and SEBI have created a robust regulatory landscape.

8. India's e-commerce industry has emerged as a dominant player in driving services sector growth in recent years. The box below discusses the performance of the e-commerce industry.

Box 1: Role of the e-commerce industry in employment generation and enhancing consumer welfare

Over the last ten years, India's online shopping scene has expanded significantly, playing a vital role in the country's retail environment. A recent study by the Pahle India Foundation (PIF) in partnership with People Research in India's Consumer Economy (PRICE)[3] sheds light on these developments through a survey of consumers, online vendors, and brick-and-mortar retailers in urban India. This survey, conducted in 35 cities across 21 States/Union Territories, involved over 12,000 participants, including 8,209 online shoppers, 2,031 offline sellers, and 2,062 online sellers.

A key finding is the broad acceptance of online shopping in cities. More than 90 per cent of the participants spend over an hour online weekly, with 40 per cent spending more than

[2] https://www.jll.co.in/en/trends-and-insights/research/jlls-global-real-estate-transparency-index-2024
[3] https://pahleindia.org/wp-content/uploads/2024/08/Assessing-the-net-Impact-of-Ecommerce-Report.pdf

10 hours. This online activity boosts the e-commerce market, with 85 per cent of users shopping online weekly. Moreover, 67 per cent of participants have purchased online in the past 30 days, highlighting a growing reliance on online shopping for everyday needs. These platforms cater to a wide array of consumer demands, from electronics to daily necessities, offering the convenience that sets online shopping apart.

To measure the effect of e-commerce on consumer well-being in detail, the survey classifies Consumer Well-being into six key areas: cost-effectiveness, convenience, consumer confidence, grievance redressal, healthy competition, and access and inclusion. convenience was identified as the primary factor enhancing consumer well-being, enabling easy shopping from home. Competition, providing more choices and boosting consumer confidence are also positive aspects. However, cost-effectiveness and grievance redressal received lower scores, indicating that consumers still struggle to resolve issues and find the best deals.

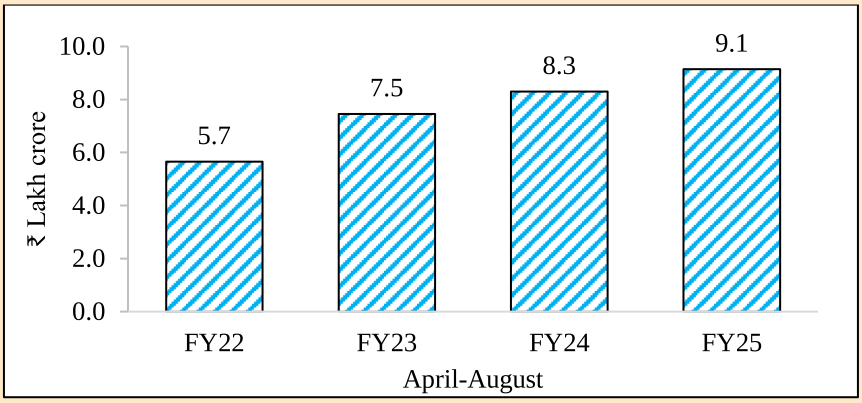
The e-commerce sector has witnessed a significant increase in job opportunities. The survey reveals a 42 per cent net rise in management positions among online sellers, reflecting the growing complexity of e-commerce operations. Other roles, such as marketing, sales, and customer support, have also expanded, all essential for maintaining a competitive edge in the digital marketplace. However, this expansion has led to a turnover in the workforce, with traditional roles being replaced by tech-oriented positions, highlighting the need for upskilling.

There is evidence of a growing adoption of digital technologies by online sellers to enhance their operations. Approximately 58 per cent use digital marketing tools, while 54 per cent utilize retail operations management software. This has led to increased sales and profitability, with 50 per cent of sellers reporting higher sales and 42 per cent noting improved profits due to their use of digital tools.

To maintain the positive employment impact of e-commerce, addressing the skills gap is crucial. Investing in vocational training programs focused on digital skills, like social media management and data analysis, could help workers adapt to the changing job market. Additionally, improving logistics and delivery services infrastructure is essential as e-commerce continues to expand.

Box 2: Growth momentum continues into Q2 FY25

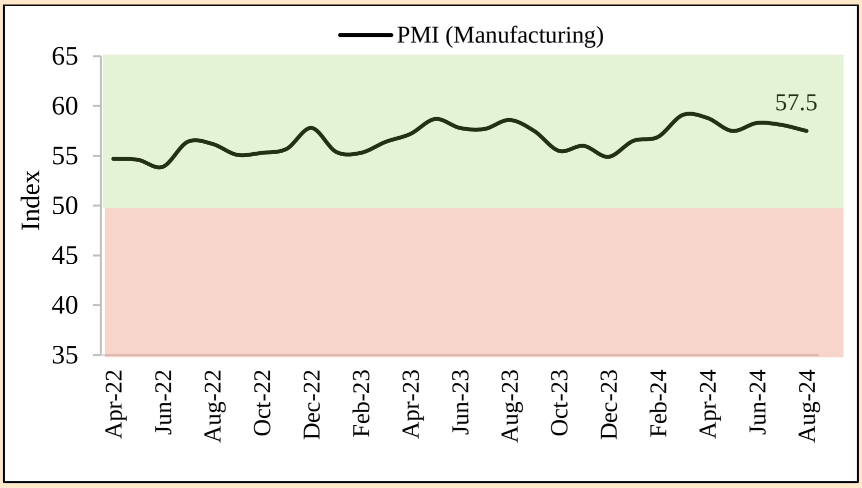
Increase in gross GST collection across years



Source: GST Council

Gross Goods and Services Tax (GST) collection rose by 10.1 per cent in April-August 2024 over the same period last year, reflecting continued momentum in the economic activity.

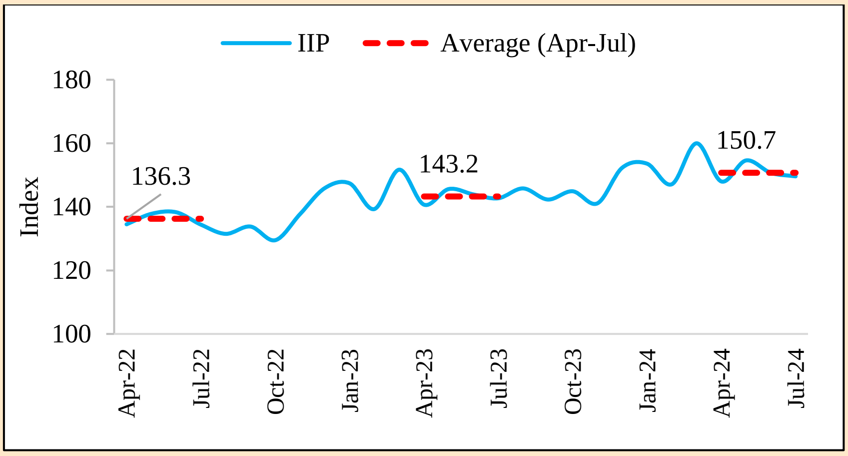
Manufacturing growth remains steady



Source: HSBC India Manufacturing PMI Reports

In August 2024, PMI Manufacturing remained above the long-run average, reflecting strong operating conditions. New business and output rose moderately.

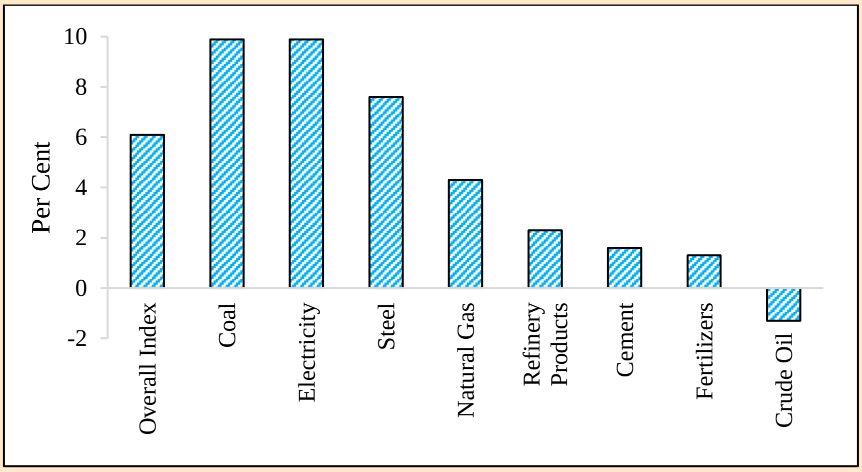
Increasing trend in the Index of Industrial Production (IIP)



Source: MoSPI

IIP grew by 5.2 per cent in April-July 2024 year-on-year (YoY). The YoY growth in sub-indices of IIP for the mining, manufacturing and electricity sectors for April-July 2024 stood at 6.9 per cent, 4.2 per cent and 10.1 per cent, respectively.

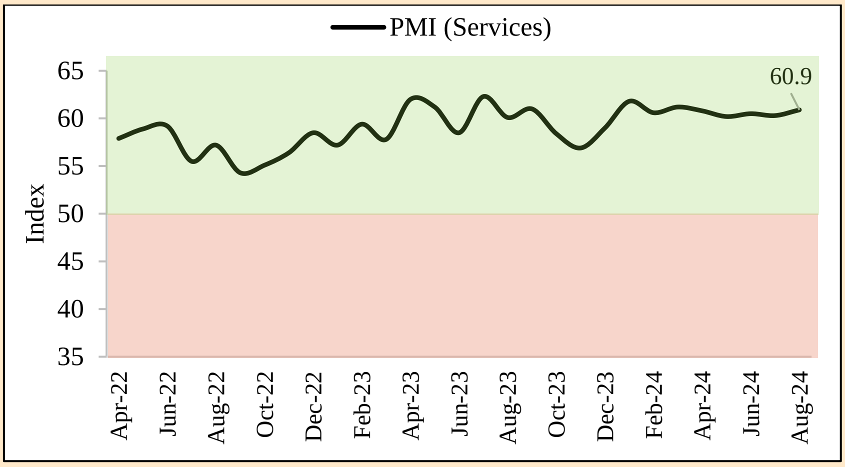
Growth performance of 8 core industries in April-July 2024



Source: Office of Economic Adviser, DPIIT

The index of eight core industries increased by 6.1 per cent (provisional) in July 2024 YoY. Strong growth was recorded in the production of steel, electricity, coal, refinery products, cement, and fertilizers.

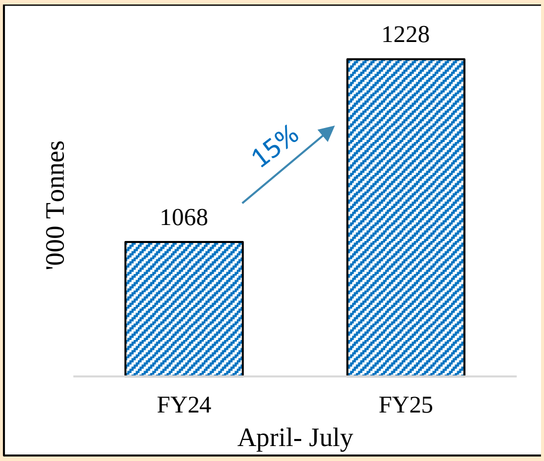
PMI Services in Expansionary Zone



Source: HSBC India Services PMI Reports

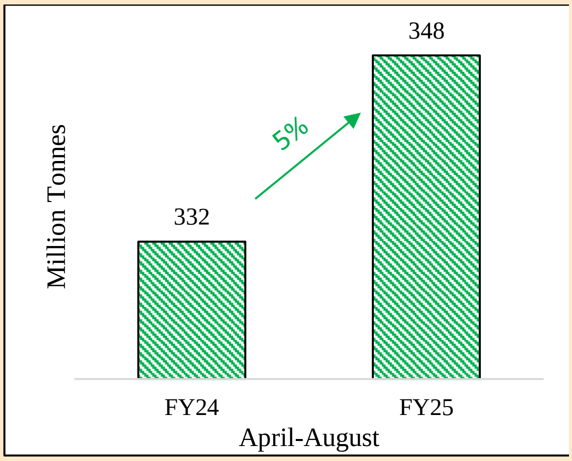
The services sector's momentum continued in August, with strong business activity driven by growth in incoming new business. As per sub-sector data, finance and insurance were the best-performing areas regarding both output and new business.

Rise in total air cargo handled



Source: Air Traffic Report–July 2024, AAI

Rise in port traffic

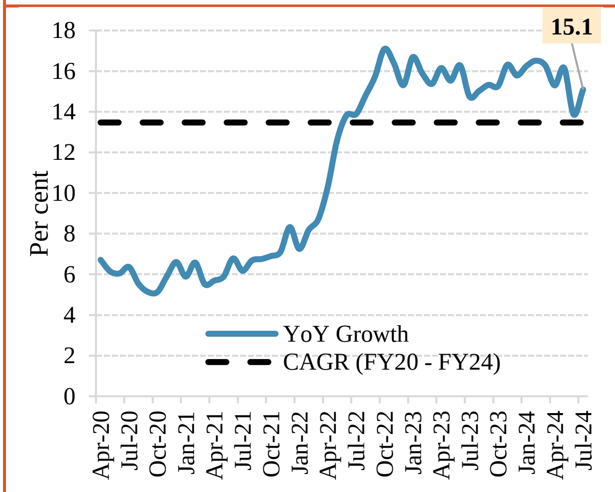


Source: Indian Ports Association

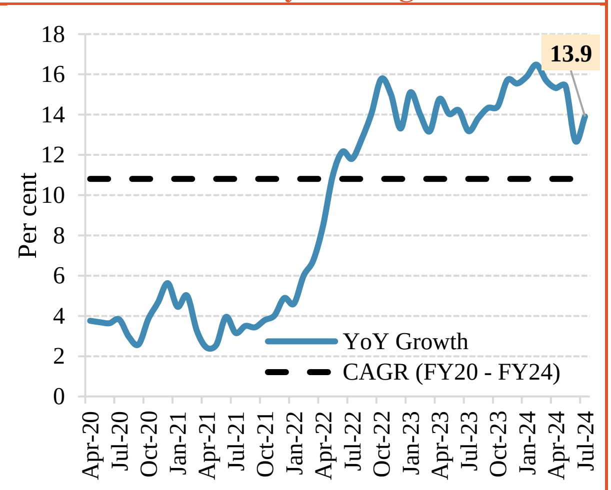
STEADY GROWTH IN BANK CREDIT

9. Credit disbursal by scheduled commercial banks[4] continues to grow steadily in the first four months of FY25, indicating healthy market dynamics – growth opportunities are being financed by a healthy banking system. Non-food credit grew over 15 per cent YoY in FY23 and FY24 and has sustained that expansion as of July 2024. This comes amid the assignment of higher risk weights on unsecured loans and the consequent moderation in personal loan growth, signalling that credit growth towards productive investments remains strong. This is borne out by the growth in non-food, non-personal credit, which remains above the average growth over FY20 – FY24.

Steady growth in non-food credit



Non-food non-personal credit growing above 5-yr average



Source: RBI data on sectoral deployment of bank credit
Note – Non-food non-personal credit calculated by subtracting personal credit from non-food credit

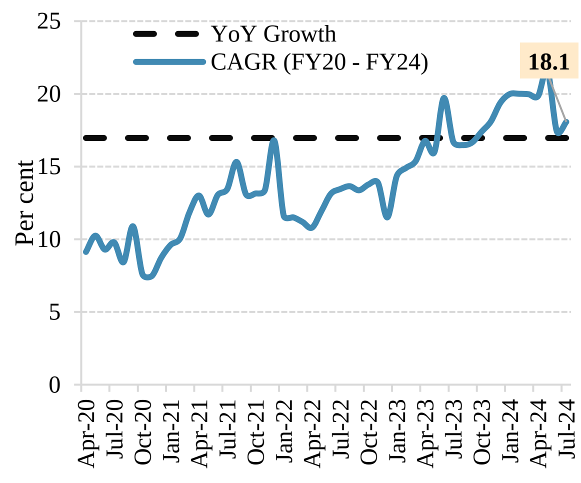
10. Sectoral credit trends remain encouraging. Bank credit to the agriculture sector remained robust, growing at 18.1 per cent (YoY) at the end of July 2024. This is due to persistent efforts by banks to address regional imbalances in farm credit and the successful implementation of farmers' modified interest subvention schemes. However, there is a need to shift the direction of bank credit from crop production to technology, farm machines, and post-harvest infrastructure, as mentioned in the NABARD research study on 'Assessing the State of Affairs in Indian Agriculture with a focus on Credit & Insurance and Storage & Marketing'.[5]

11. Loans to the services sector and to micro, small and medium enterprises continue to grow steadily, around their respective five-year compounded annual growth rate (CAGR). Credit to industry, driven by steady demand from industrial MSMEs and a pick-up in the credit

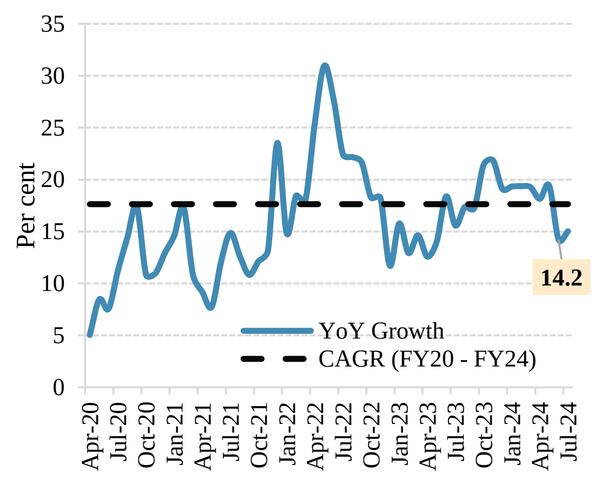
[4] Statistics on non-food credit, personal loans, and credit to the industry and service sectors discussed in this section exclude the impact of the merger of a non-bank with a bank.
[5] https://www.nabard.org/auth/writereaddata/tender/1201243818assessing-the-state-of-affairs-in-indian-agriculture-with-a-focus-on-credit-insurance-and-storage-marketing.pdf

appetite of large industries, has grown faster during the last 8 months than its five-year CAGR. The growth in personal loans has somewhat moderated on the back of tighter lending norms in the category.

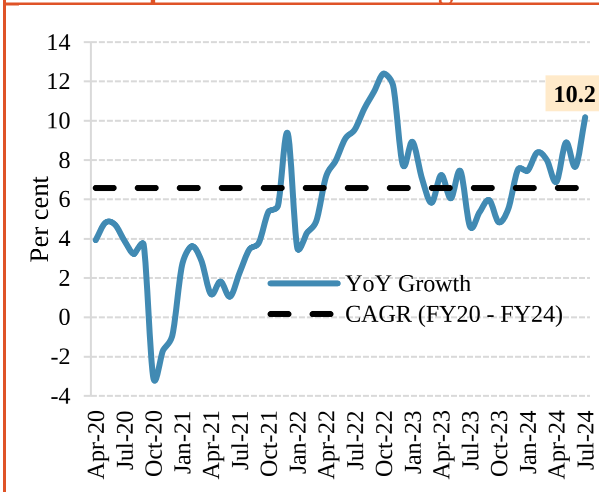
Increasing appetite for agricultural credit



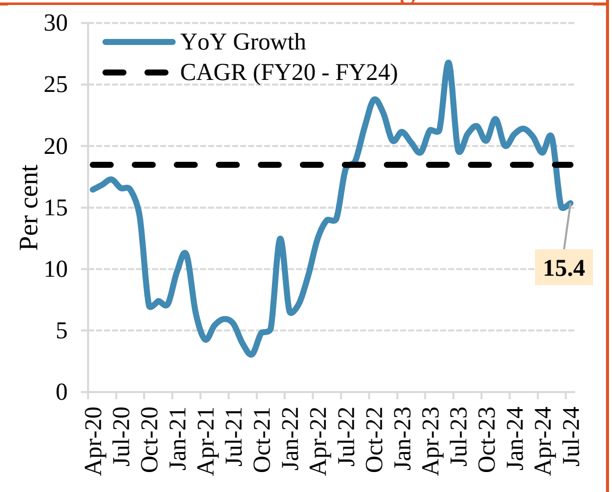
Sustained growth in credit to MSMEs



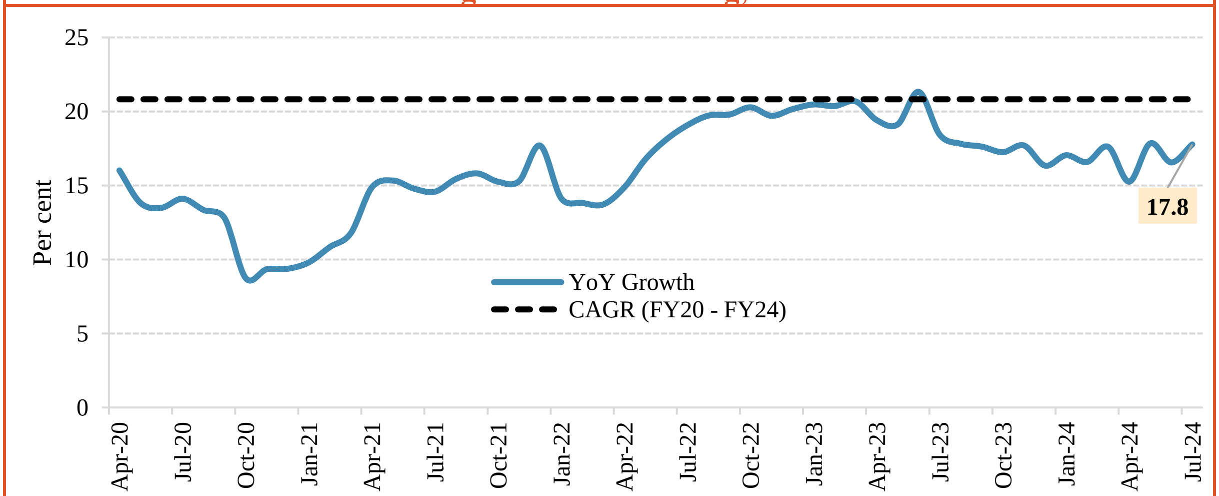
Pickup in industrial credit growth



Stable services credit growth



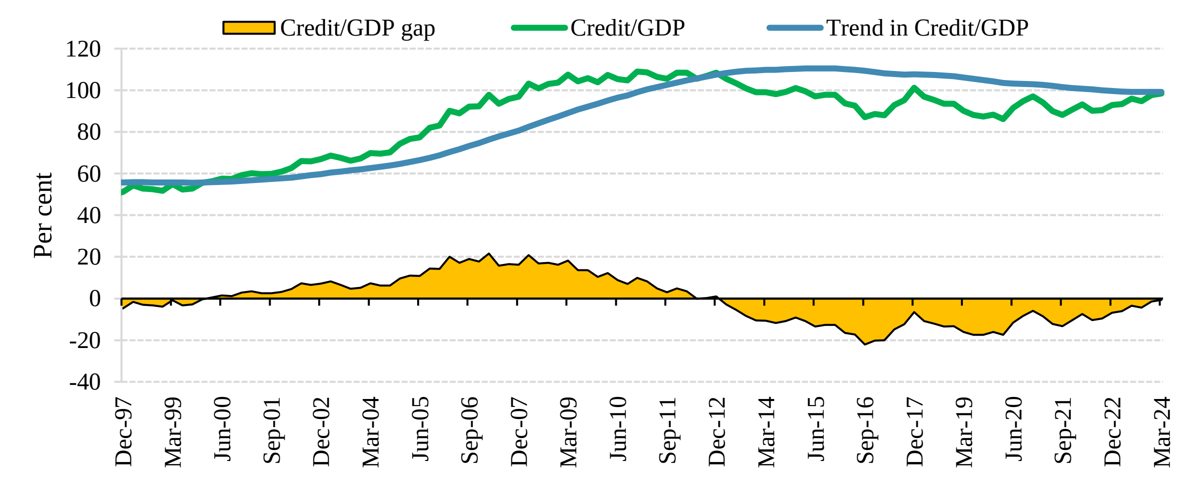
Personal loan growth is still strong, but moderates



Source: RBI data on sectoral deployment of bank credit
Note: Statistics used in this chart exclude the impact of the merger of a non-bank with a bank

12. The credit/GDP ratio is a good statistic to evaluate where an economy stands in the financial cycle. If the ratio is significantly greater than its trend value, it may indicate a build-up of stress in the lending sector. On the other hand, if the ratio is lower compared to its trend, it indicates ample room for growth. Data on credit/GDP ratios across economies are published by the Bank for International Settlements (BIS). The graph below plots the ratio for India, along with the trend of the ratio and the gap from the trend (henceforth referred to as trend and gap, respectively). It is observed that there was a positive credit/GDP in the second half of the decade ending in 2010, coinciding with the investment boom over that period. This was followed by a bust in the credit cycle – higher non-performing assets impaired the banking sector's ability to lend, leading to a significant slowdown in credit growth. After the clean-up of the banking sector and the recovery from the Covid-19 pandemic, an upward trend in the credit/GDP ratio is observed, with the gap steadily closing.

Indian economy witnessing the commencement of a new credit upcycle



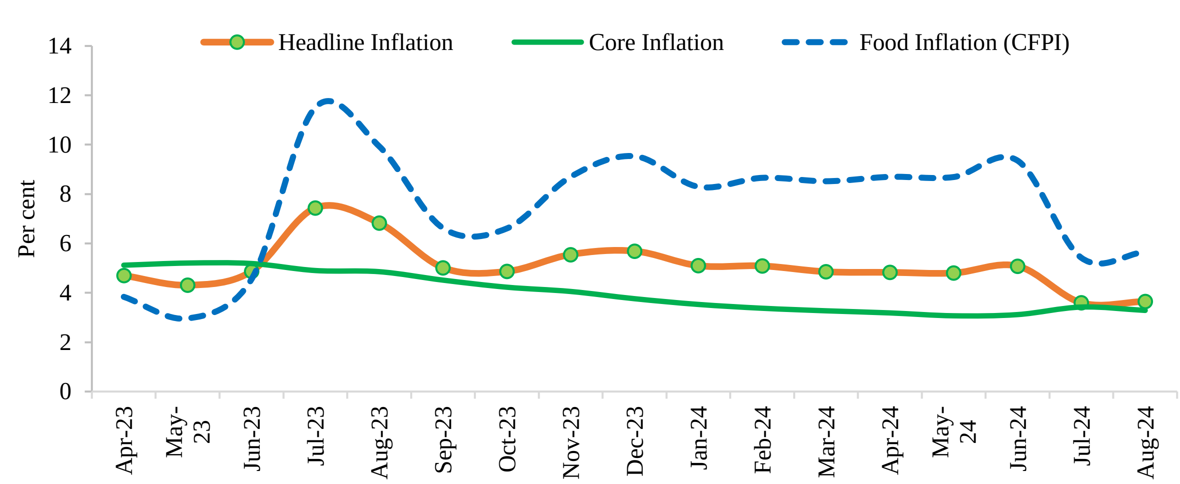
Source: Bank for International Settlements

INFLATION REMAINS BENIGN IN AUGUST 2024

13. Retail inflation remains benign at 3.7 per cent in August 2024, driven by softer food and core inflation. Major items of food inflation, such as cereals, meat & fish, milk, sugar and spices, saw a decline in inflation. The inflation rate in vegetables increased in August due to the elevated inflation rate in potatoes and onions. Food inflation in August stood at 5.7 per cent, a modest increase from July, yet notably lower than the 8.9 per cent experienced in Q1 of FY25. Inflation in the fuel & light group continued to remain in the deflationary zone for the 12th consecutive month. The core inflation, which excludes food and fuel, remained low at 3.3 per cent in August. Overall, retail inflation in April-August 2024 has significantly declined to 4.4

per cent compared to 5.6 per cent in the corresponding period of the previous year. Core inflation eased to 3.2 per cent compared to 5.1 per cent in the corresponding period of FY23.

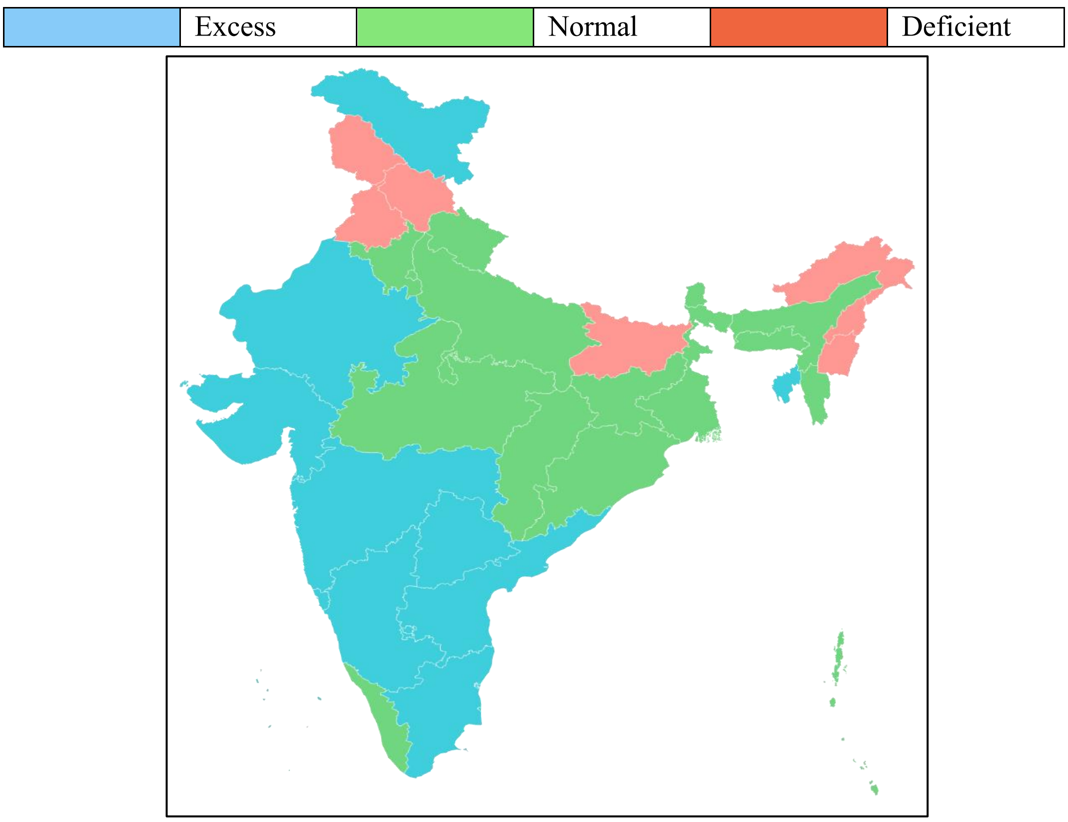
Moderation in Headline and Food Inflation



Source: Consumer Price Index, MoSPI

Monsoon Progressing Well: Reservoir Levels Above Normal

Progress in spatial distribution of monsoon as of 12 September 2024



Source: IMD

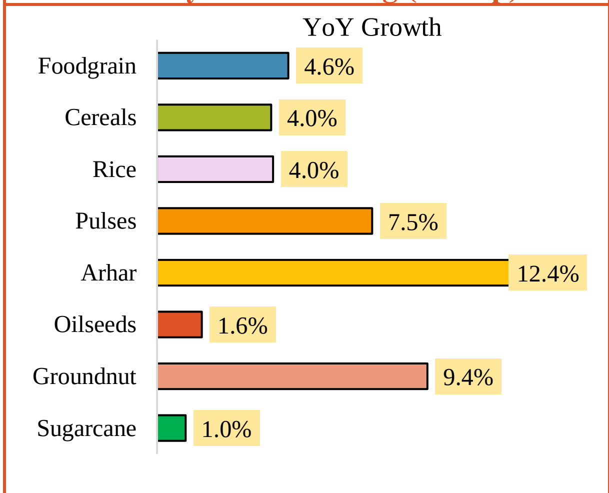
14. As of 12 Sept 24, the monsoon has advanced further, with rainfall exceeding the normal by 8 per cent. However, spatial distribution remains uneven compared to the previous month,

with 41 per cent of the sub-divisional regions receiving normal rainfall, 35 per cent receiving excess, and 15 per cent receiving deficient rainfall. The current reservoir levels show a positive trend, as live storage is 29 per cent higher than the corresponding period last year as well as 18 per cent above the normal storage. Region-wise, storage is comfortable with above-normal or close-to-normal storage levels across regions. This bodes well for the upcoming rabi sowing season.

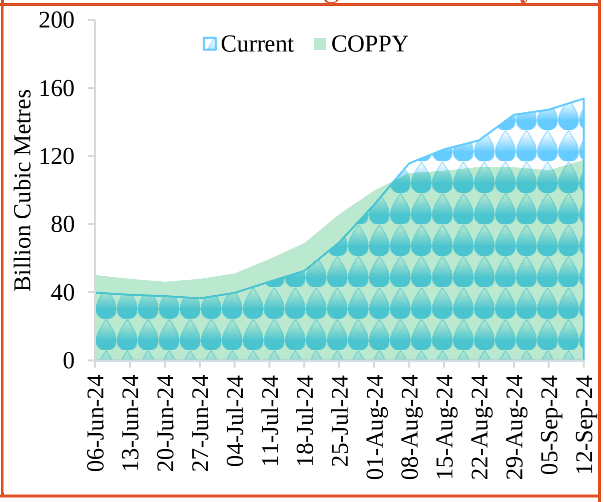
Substantial Progress in Pulses and Cereals Sowing Drives Kharif Production

15. Kharif sowing has been progressing well, marked by a substantial increase in acreage of pulses and cereals. Area sown under Kharif food grains increased by 4.6 per cent compared to last year and is higher by 2.2 per cent over the last 5-year average. Notably, cereals and pulses acreage have increased by 4 per cent and 7.5 per cent, respectively. The sowing area under rice and tur - major Kharif cereal and kharif pulse -increased by 4 per cent and 12.4 per cent, respectively. Attesting to the positive farm sector developments, sales of crucial agricultural inputs/machines have exhibited steady growth during April- July/Aug 2024. Tractor sales in rural areas rose by ~3 per cent, while growth in fertiliser sales stood at 3.5 per cent.

Healthy kharif sowing (9th Sep)



Reservoir levels are higher than last year



Source: Ministry of Agriculture & Farmers Welfare, Reservoir Bulletin, Central Water Commission

16. Looking ahead, the outlook for inflation trajectory is positive as benign core inflation, good monsoon, and healthy sowing progress of Kharif crops are likely to keep inflation under control. The government has lifted the minimum export price restrictions for onions and basmati rice imposed last year to alleviate food inflation[6]. To further stabilize wheat prices, the government has reduced the stockholding limits on wheat traders, wholesalers, and processors to increase the supply in the market and prevent hoarding by large entities[7].

[6] https://tinyurl.com/4ndrc899
[7] https://pib.gov.in/PressReleasePage.aspx?PRID=2054657

CHANGING GLOBAL TRADE DYNAMICS

17. The recent geopolitical events, characterised by ongoing conflicts and trade disputes, are reshaping the contours of international trade in terms of protectionist trade policies and shifting global supply chains.

18. Another concern for international trade trends is the impact of climate change through changing costs, comparative advantages, and global supply chains.[8] For example, Hurricane Ian, which hit the Caribbean and the US in September 2022, led to a 75 per cent drop in shipments and added 2.5 days to shipping times.[9] Weather issues cause 23 per cent of all road delays in the US, costing trucking companies between USD 2 billion and USD 3.5 billion annually due to disruptions in work shifts, holding costs, late fees, and customer retention problems.[10] Extreme weather also significantly impacts agriculture. Recent disruptions in the Red Sea have forced changes in trade routes, causing higher shipping costs and longer delivery times, particularly for trade between Asia and Europe.[11] The survey by The Economist shows that around 20 per cent of executives view global warming and extreme weather as major concerns for global trade in 2024 and 2025, with inflation and geopolitical issues being more prominent concerns.[12]

19. Unlike the cautious predictions from the WTO and EIU, the Economist's survey shows that executives are more optimistic about 2024. Firms expect their overall exports to grow by roughly a quarter and their imports by roughly a fifth in 2025.[13] In fact, 75 per cent of business executives expect some expansion in their firms' exports, a substantial 66.8 per cent of them are looking at an increase in import volumes. However, businesses see high transportation costs as one of the major factors restricting expansion in their exports, followed by high tariffs, shortage of key production inputs, unfavourable foreign exchange movements, political instability, and falling demand in key export markets, among others.

Evidence of an uptick in global trade

20. Since the third quarter of 2022, global trade in goods remained stagnant. Still, it began to pick up pace in the fourth quarter of 2023 and accelerated in the first quarter of 2024, increasing by 1 per cent compared to the previous period and 1.4 per cent compared to the previous year. This aligns with the WTO's prediction of a positive growth in global trade for 2024. Moreover, the WTO's Goods Trade Barometer Index[14] recorded a value of 103.2 in July

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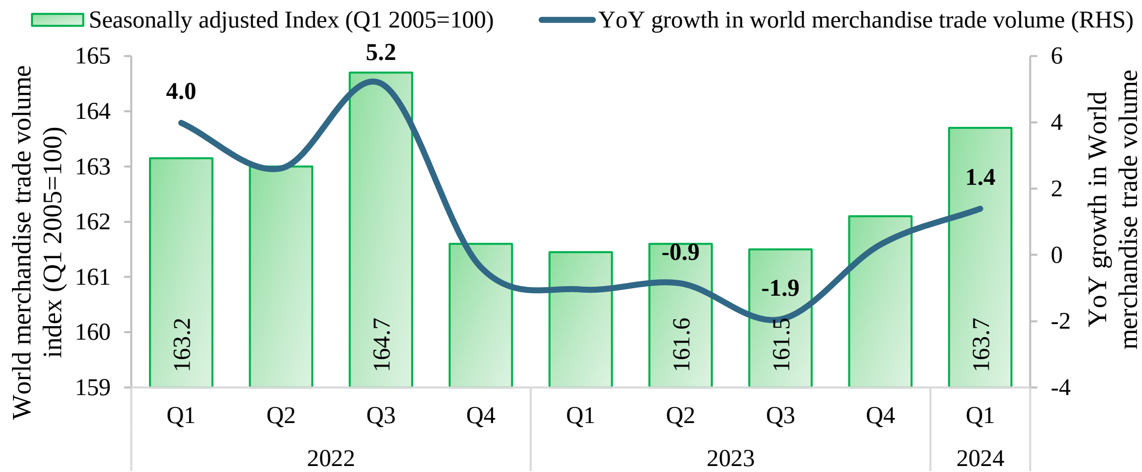
[8] https://www.wto.org/english/res_e/booksp_e/wtr22_e/wtr22_ch2_e.pdf
[9] https://www.everstream.ai/wp-content/uploads/2023/04/2024-Risk-Report_FINAL.pdf
[10] https://www.geotab.com/blog/weather-delays/
[11] https://unctad.org/system/files/official-document/osginf2024d2_en.pdf
[12] https://impact.economist.com/projects/trade-in-transition/climate_change
[13] Ibid footnote 7
[14] https://www.wto.org/english/news_e/news24_e/wtoi_04sep24_e.htm

2024, indicating a growth in global trade. Every component of the index surpassed the trend, with the exception of the electronic components. As per WTO, despite these positive trends, the future of trade is still marked by significant uncertainty due to escalating geopolitical tensions, ongoing regional disputes, changes in monetary policies among developed countries, and declining export orders.

Positive growth in world merchandise trade volume in Q1 of 2024

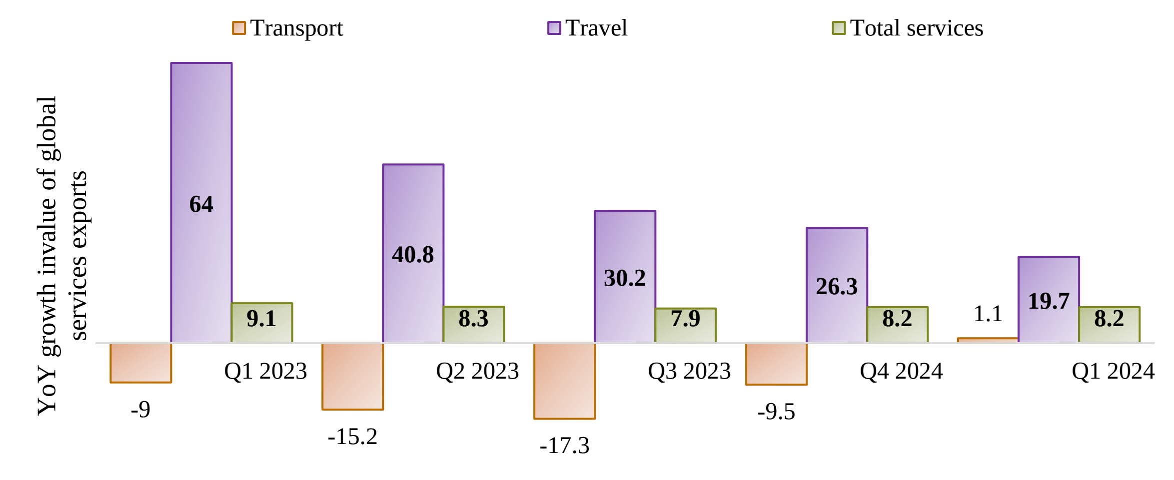


Source: WTO Stats

21. As per the United Nations Conference on Trade and Development's (UNCTAD) latest bulletin on Trade in Services[15], global services trade maintained its momentum, with the value of global services exports growing by 8.2 per cent in Q1 of 2024 on a YoY basis and 2.2 per cent on a sequential basis (seasonally adjusted). In a continued recovery from the COVID-19 pandemic, travel exports registered an almost 20 per cent YoY rise. International transport services sales, which had recovered from the pandemic earlier, increased by 1 per cent in Q1 after registering a decrease in every quarter of 2023. Digitally deliverable services trade boosted during the pandemic and has since then been on a continuous rise. Amongst the major developing economies, India emerged as the second-largest exporter and third-largest importer of services in Q1 of 2024, registering a YoY growth of 4.1 per cent and 0.5 per cent, respectively.

[15] https://unctad.org/system/files/official-document/statinf2024d3_en.pdf

Expansion in global services exports



Source: UNCTAD Bulletin on Trade in Services

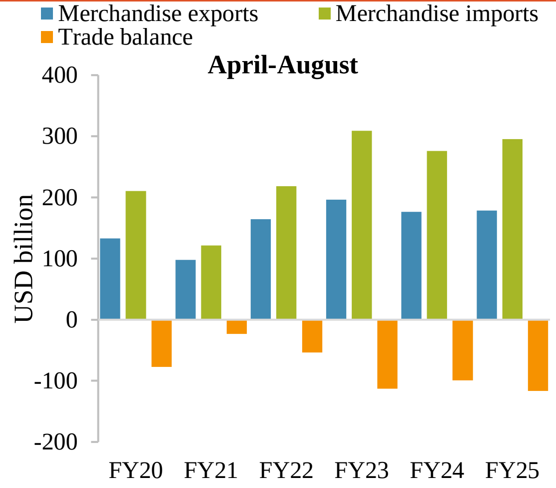
India's merchandise exports and imports are on a rising trajectory

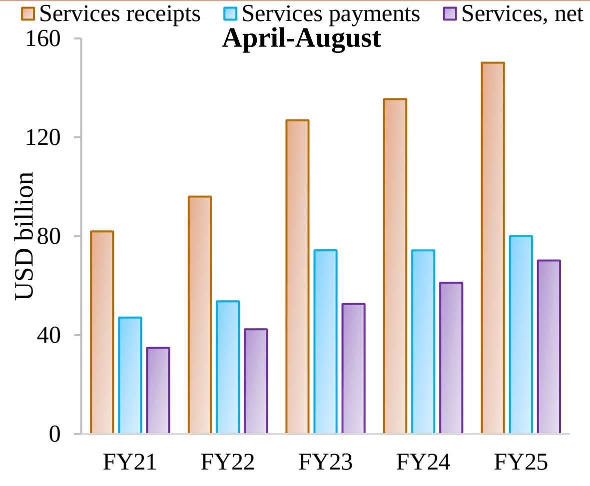
22. India's merchandise exports registered YoY growth of 1.1 per cent in the first five months of FY25. However, non-petroleum & non-gems & jewellery exports remained robust, growing by 5.3 per cent over this period. Engineering goods, petroleum products, electronic goods, drugs & pharmaceuticals, and organic & inorganic chemicals accounted for around 65 per cent of the merchandise exports in the first five months of FY25. Netherlands, USA, UAE, Malaysia, and Singapore emerged as major export destinations.

23. Owing to a rise in domestic demand and a positive base effect, merchandise imports grew faster than exports, by 7.1 per cent, in the first five months of FY25. Petroleum products, electronic goods, machinery & electrical, gold and coke, coal & briquettes accounted for around 60 per cent of merchandise imports in the first five months of FY25. UAE, Russia, China, Switzerland and Taiwan emerged as major importing partners. Due to a larger increase in imports than exports, the merchandise trade deficit widened from USD 99.2 billion in April-August 2023 to USD 116.7 billion during the corresponding period of FY25.

24. India's services exports grew by 10.8 per cent in the first five months of FY25 (April 2024 to August 2024), leading to a rise in net services receipts from USD 61.2 billion in the first five months of FY24 to USD 70.2 billion in the same period of FY25.

Merchandise trade deficit widened during the first four months of FY25	Improvement in net services receipts in first five months of FY25
Source: DGCIS, M/o Commerce	Source: RBI





Robust capital flows

25. FDI into India has recently been scrutinised due to concerns about declining inflows. However, a broader analysis[16] reveals that FDI flows globally have been hampered by economic uncertainty, geopolitical tensions, and rising borrowing costs. The UNCTAD World Investment Report 2024 shows a global decline in FDI, with emerging economies witnessing a 15 per cent drop in 2023.

26. India's FDI, although slightly lower in FY24, was primarily impacted by a 51.5 per cent increase in repatriations as international companies realised returns from investments. Many multinational companies have capitalized on India's strong stock market through secondary sales and IPOs, indicating investor confidence. In 2023, private equity-backed exits surged, supported by India's stable macroeconomic environment and investor-friendly policies. That India is able to facilitate profitable exits for direct investors will boost future investments. Hence, the interpretation of the lower net FDI for FY24 is a positive one.

27. India remains a strong destination for FDI, ranking high in greenfield project announcements and international project finance deals. The government continues to simplify regulations and encourage investments in new sectors like renewables and semiconductors. Going forward, ensuring a skilled workforce, fostering R&D, and improving investment attractiveness across more states are key priorities. Despite global challenges, India's FDI potential remains robust, signalling long-term economic growth.

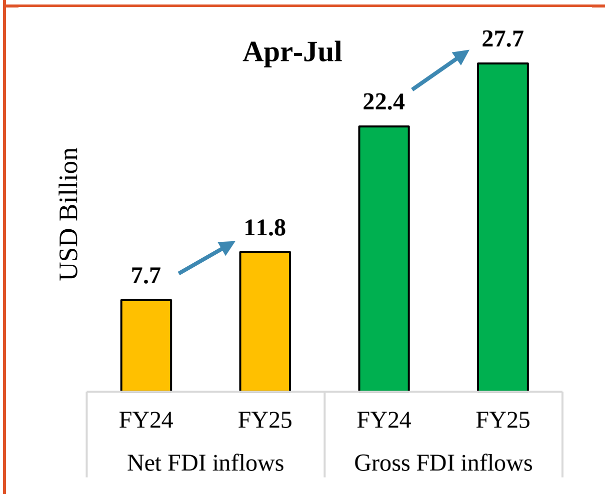
[16] "Behind India's growth over last 10 yrs—increase in repatriations, steady FDI inflows". https://tinyurl.com/2tt3pxsf

28. Net Foreign Direct Investment (FDI) inflows to India rose by 52.4 per cent during the first four months of FY25, supported by a surge in gross FDI inflows. Gross FDI inflows increased by 23.7 per cent, from USD 22.4 billion during the first four months of FY24 to USD 27.7 billion in the corresponding period of FY25. Manufacturing, financial services, communication services, computer services, and electricity and other energy sectors accounted for more than three-fourths of the gross FDI inflows[17].

Rising Foreign Portfolio Investment flows

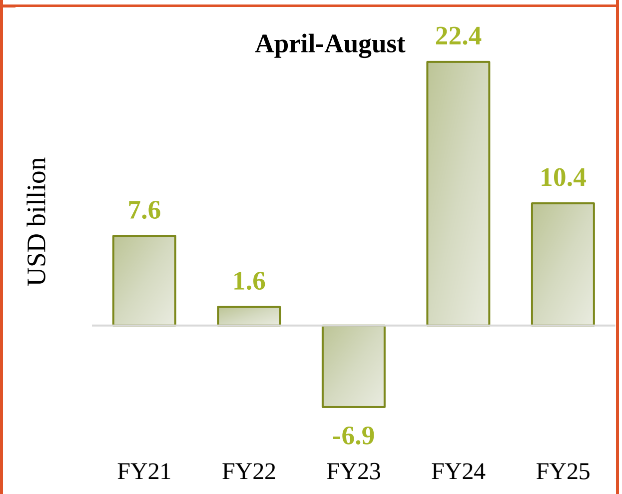
29. Supported by strong macroeconomic fundamentals, favourable business environment, high economic growth and expectation of a rate cut by the US Federal Reserve, foreign portfolio investors remained net buyers in the first five months of FY25, witnessing net foreign portfolio investment (FPI) inflows of USD 10.4 billion. Telecommunications, capital goods, consumer services and healthcare accounted for most of the FPI inflows during the first five months of FY25.

Increase in FDI inflows



Source: RBI

FPI investors were net buyers in the first five months of FY25

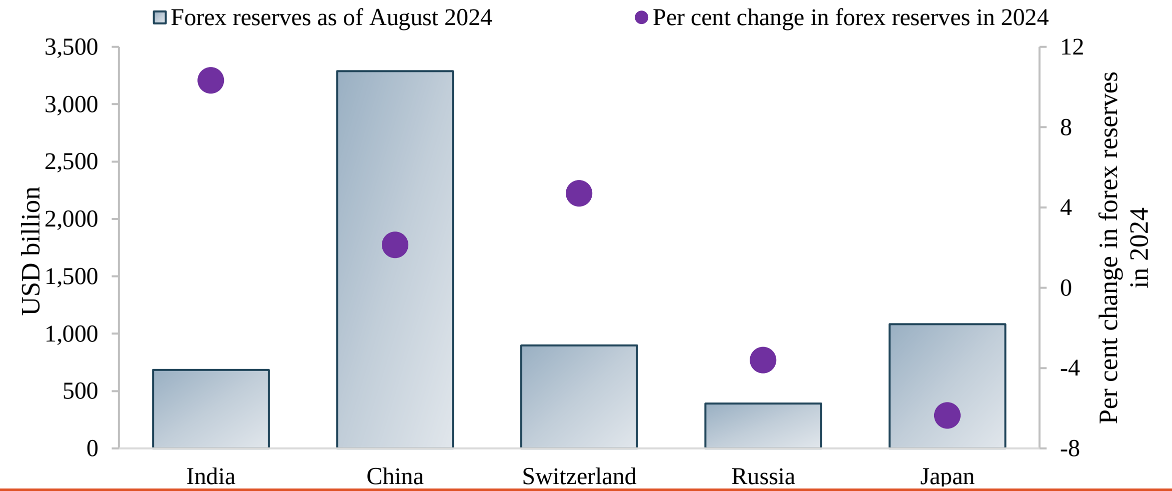


Source: NSDL

30. Driven by stable capital inflows, India witnessed the highest foreign exchange reserves of USD 684 billion as of 30th August 2024. India's forex reserves increased by USD 64 billion from January to August 2024, the highest percentage increase amongst major forex reserves-holding countries. The forex reserves are sufficient to cover more than 11 months of imports and more than 100 per cent of India's external debt as of March 2024. Rising merchandise and services exports, coupled with stable foreign capital inflows, reflect the strong position of India's external sector.

[17] State of the Economy, RBI Bulletin, September 2024

India witnessed the highest percentage increase in forex reserves holding in 2024 (January-August 2024)



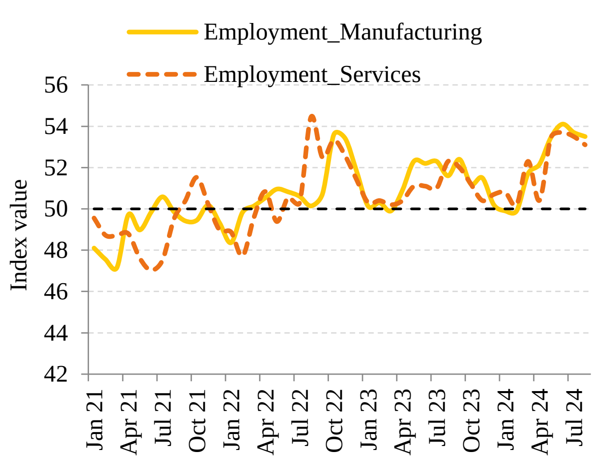
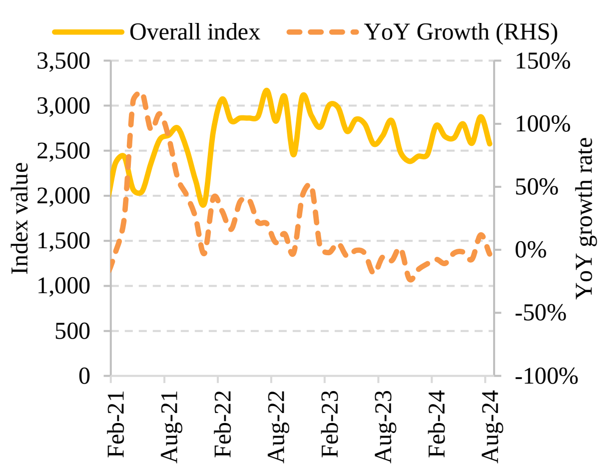
Source: RBI for India, Bloomberg for other countries
Note: Data for India, China and Japan is at the end of August 2024, for Switzerland at the end of July 2024 and for Russia at the end of June 2024

LABOUR MARKET AT ROBUST LEVELS WITH POSITIVE OUTLOOK

31. Labour market indicators indicated a strong outlook for the next quarter. Signalling a rebound in formal job creation, EPFO added 10.5 lakh new members in July 2024. A significant 59.4 per cent of new members added in July 2024 were in the 18-25 age group, indicating that most individuals joining the organized workforce are youth, mainly first-time job seekers. The purchasing managers' employment sub-index softened marginally while staying historically strong, continuing to be in the expansionary zone[18] for the sixth consecutive month in August, driven by a buoyant, positive outlook and rising backlogs.

32. The Naukri JobSpeak index retreated to negative growth territory in August, witnessing a YoY contraction of 3.4 per cent. The job market showed steady performance in the first half of the month, but a unique clustering of holidays in the latter half significantly impacted the overall index. Despite the overall dip, several sectoral sub-indices, including AI-ML, FMCG, Pharma/Biotech, Auto, etc., saw significant growth.

[18] The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are also seasonally adjusted.

Employment sub-indices in PMI at historically high levels	Naukri Jobspeak Index declined due to festive clustering of holidays
	
Source: HSBC Purchasing Managers' Index, S&P	Source: Naukri Jobspeak Index

33. According to the ManpowerGroup Employment Outlook Survey, India has the strongest hiring sentiment in the world, with a net employment outlook of 37 per cent for the December 2024 quarter[19]. The sentiment is 12 percentage points higher than the global average and 7 percentage points higher than the previous quarter. Of the 3,150 Indian firms surveyed, over half intend to hire more people, while the remaining 13 per cent expect fewer hires or no change at all.

34. On the welfare front, the box below summarises a recent academic paper underscoring the critical role of Swachh Bharat Abhiyan in improving child health and reducing mortality.

Box 3: Nature Study confirms the transformational health impact of the Swachh Bharat Mission[20]

A recent study published in Nature, the world's leading multi-disciplinary science journal, by Chakrabarti et al. reveals that the Swachh Bharat Mission (SBM), India's ambitious national sanitation program, has contributed significantly to reducing infant and under-five mortality rates across the country – averting 60,000 – 70,000 infant lives annually[21].

[19] The ManpowerGroup Employment Outlook Survey measures employers' intentions to increase or decrease the number of employees in their workforce during the upcoming quarter. The Survey has been running since 1962. It interviewed nearly 39,000 employers across 41 countries on hiring intentions for the fourth quarter of 2023.

[20] PIB release dated 5th Sep 2024, release ID 2052319 https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2052319

[21] Chakrabarti, S., Gune, S., Bruckner, T.A. et al. Toilet construction under the Swachh Bharat Mission and infant mortality in India. Sci Rep 14, 20340 (2024). https://doi.org/10.1038/s41598-024-71268-8

The study analysed data from 35 Indian states and 640 districts spanning a decade (2011-2020), using a quasi-experimental design and focusing on infant mortality rate and under-five mortality rate per thousand live births as the primary outcomes. Launched in 2014, SBM is one of the largest national behavioural change sanitation programs in the world, aimed at eliminating open defecation by providing household toilets across the country. Over 11.7 crore toilets have been constructed since 2014, with a public investment of over 1.4 lakh crore.

Key findings

Inverse Association Between Toilet Access and Child Mortality: Historically, toilet access and child mortality have shown a robust inverse association in India.

Scale of Impact: The study revealed that for every 10 percentage point increase in district-level access following SBM corresponds with a reduction in district-level IMR by 0.9 points and U5MR by 1.1 points on average. Further, districts with over 30 per cent toilet coverage under SBM experienced reductions of 5.3 in the IMR and 6.8 in the U5MR per thousand live births. In absolute numbers, this co-efficient would scale to 60,000 – 70,000 infant lives annually. This finding was supported by robustness checks and falsification tests, confirming the validity of the results.

SBM's Unique Approach: SBM's comprehensive approach of combining toilet construction with substantial investments in IEC (Information, Education, and Communication) and community engagement represents a marked departure from previous sanitation efforts in India.

Broader Public Health Benefits: The study also highlights that expanded access to toilets under SBM likely reduced exposure to faecal-oral pathogens, contributing to lower incidences of diarrhoea and malnutrition, which are key drivers of child mortality in India.

The evidence from SBM's implementation reinforces the continued expansion of sanitation programs as part of broader public health strategies, emphasizing behavioural change. Building on the success of Phase I (2014–2019), SBM-Grameen Phase II (2019–2025) was launched to sustain the ODF status and manage solid and liquid waste by 2025. This phase focuses on "Sampoorn Swachhata", or complete cleanliness, which includes creating ODF Plus villages that maintain and improve sanitation standards.

CONCLUSION AND OUTLOOK

35. The recent developments analysed above indicate strong foundations of macroeconomic stability in India with steady growth, investment, employment and inflation trends, a strong and stable financial sector, as well as, a resilient external account including comfortable foreign exchange reserve position. A challenge on the macroeconomic front is of navigating the continuing uncertainty in global economic prospects. We will likely encounter a cycle of policy rate cuts globally, amid fears of a recession in advanced economies and continuing geopolitical conflicts.

36. For the remaining part of the financial year, a reasonable expectation is that public expenditure will pick up, providing added growth and investment impetus. In the farm sector, higher kharif acreage is already visible. Adequately replenished reservoir levels will potentially give a fillip to the upcoming Rabi crops as well. The skewed spatial distribution of rain may have an impact on farm output in a few regions. However, in the absence of any serious adverse climate shocks, rural incomes and demand should get stronger, and food inflation will be milder. There are also incipient signs of strains in certain sectors. For instance, the automobile dealers' body, FADA, has pointed to moderating sales of passenger vehicles and a build-up of inventory. Data from Nielsen IQ indicated that the growth of fast-moving consumer goods sales in urban areas slowed in Q1 FY25. While these may turn out to be transient with the onset of the festival season, they warrant monitoring. Further, capital spending by Indian states has declined in the current financial year. Stock markets around the world are booming, reinforced by recent policy announcements in a few countries. Consequently, the risk of an eventual correction has risen. If the risk materialises, the spillover effect may be felt globally as well. Amidst these concerns, low oil prices is a bright spot for the economy.

37. On balance, the GDP growth of 6.7 per cent in Q1FY25 and the movements in high-frequency indicators till August fit well with the real GDP growth projection of 6.5 –7 per cent for FY25 provided by the Economic Survey 2023-24.

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PERFORMANCE OF HIGH-FREQUENCY INDICATORS

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2022-23	2023-24	2024-25	2022-23	2023-24	2024-25
Agriculture								
Fertiliser Sales	Mn Tonnes	Apr-July	21.8	21.7	22.4	14.3	-0.5	3.2
Domestic Tractor Sales	Lakh	Apr-Aug	3.7	3.7	3.7	7.2	0.0	0.4
Foodgrain Production (Kharif +Rabi)	Mn Tonnes	Actual, 3rd AE	329.7	328.9		4.5	-0.3	
Reservoir Level	Bn Cu. Metres	12 Sep	153.0	117.7	153.8	20.5	-23.1	30.7
Wheat Procurement (RMS)	LMT	15-August	187.5	260.7	265.9		39.1	2.0
Rice Procurement (KMS)	LMT	21-May	491.1	476.1		1.8	-3.1	-
Rainfall	% of LPA	16 Sep	107.3	94.3	107.6	18.8	-12.0	14.0
Credit to Agriculture and allied activities	₹ Lakh crore	July	15.7	18.3	21.6	13.1	16.9	17.9
Industry								
IIP	Index	Apr-Jul	136.3	143.2	150.7	10.0	5.1	5.2
8-Core Industries	Index	Apr-Jul	144.8	154.4	163.9	11.6	6.6	6.2
Domestic Auto sales	Lakh	Apr-Aug	83	88.7	100.6	33.4	6.9	13.4
PMI Manufacturing	Index	Apr-Aug	55.2	58	58	5.3	5.1	0.0
Power consumption	Billion kWh	Apr-Aug	659.1	706.8	745.3	11.3	7.2	5.4
Natural gas production	Bn Cu. Metres	Apr-Jun	8.6	8.6	9.1	4.9	0.0	5.8
Cement production	Index	Apr-Jul	167.3	186.2	189.2	12.9	11.3	1.6
Steel consumption	Mn Tonnes	Apr-Jul	46.3	53	60.3	12.1	14.5	13.8

Data Title	Unit	YTD Period/As at	Year to Date			Year to Date (YoY Growth)		
			2022-23	2023-24	2024-25	2022-23	2023-24	2024-25
Inflation								
CPI-C	Index	Apr-Aug	172.4	182.1	190.1	7.1	5.6	4.4
WPI	Index	Apr-Aug	154	150.8	154	14.9	-2.1	2.1
CFPI	Index	Apr-Aug	172.8	184.2	198.0	7.7	6.6	7.5
CPI-Core	Index	Apr-Aug	170.3	178.9	184.6	6.2	5.1	3.2
Services								
Average Daily ETC Collection	₹ Crore	July	134.1	160.2	179.9	39.7	19.5	12.3
Domestic Air Passenger Traffic	Lakh	Apr-July	837.1	1010.7	1071.7	172.0	20.7	6.0
Railway Passenger Traffic								
Port Cargo Traffic	Million tonnes	Apr-Aug	323.1	331.9	348.1	10.4	2.7	4.9
Rail Freight Traffic	Million tonnes	Apr-Aug	620.9	634.7	653.2	10.3	2.2	4.9
PMI Services	Index	August	57.2	60.1	60.9	0.9	5.1	1.4
Fuel Consumption	Million tonnes	Apr-Aug	99.2	96	90.5	15.9	6.0	3.3
UPI (Value)	₹ Lakh crore	Apr-Aug	51.7	74.8	101.42	86.3	44.6	35.5
UPI (Volume)	Crore	Apr-Aug	3146.7	4819.9	7062.4	112.7	53.2	46.5
E-Way Bill Volume	Crore	Apr-Aug	37.71	44	51	33.0	16.7	16.0
Fiscal Indicators								
Gross tax revenue (Central Govt)	₹ Lakh crore	Apr-Jul	8.7	8.9	10.8	25.2	2.3	21.3
Revenue Expenditure	₹ Lakh crore	Apr-Jul	9.2	10.6	10.4	5.7	15.2	-1.9
Capital Expenditure	₹ Lakh crore	Apr-Jul	2.1	3.2	2.6	61.5	52.4	-18.8
Fiscal Deficit	₹ Lakh crore	Apr-Jul	3.4	6.1	2.8	6.3	79.4	-54.1
Revenue Deficit	₹ Lakh crore	Apr-Jul	1.6	3.0	0.22	-20.0	87.5	-92.7
Primary Deficit	₹ Lakh crore	Apr-Jul	0.6	3.1	-0.51	-36.8	416.7	-116.5
GST Collection	₹ Lakh crore	Apr-Aug	7.46	8.3	9.14	32.0	11.3	10.1

Data Title	Unit	YTD Period/As at the end of	Year to Date			Year to Date (YoY Growth)		
			2022-23	2023-24	2024-25	2022-23	2023-24	2024-25
External Sector								
Merchandise exports	USD Billion	Apr-Aug	196.4	176.7	178.7	19.4	-10.0	1.1
Non-oil exports	USD Billion	Apr-Aug	152.8	141.4	146.8	8.3	-7.4	3.8
Merchandise imports	USD Billion	Apr-Aug	309.2	275.8	295.3	41.7	-10.8	7.1
Non-oil non-gold/silver imports	USD Billion	Apr-Aug	200.6	187.4	194.3	36.8	-6.6	3.7
Net FDI	USD Billion	Apr-Jul	20.8	7.7	11.8	4.9	-62.8	52.5
Net FPI	USD Billion	Apr-Aug	-6.9	22.4	10.4	-539.1	-423.5	-53.7
Exchange Rate	INR/USD	Apr-Aug	78.1	82.3	83.6	5.6	5.3	1.5
Foreign Exchange Reserves	USD Billion	30 Aug	561	594.9	684	-11.4	6.0	15.0
Import Cover	Months	Aug	9.6	11	11.8	-	-	-
Monetary and Financial								
Total Bank Credit	₹ Lakh crore	23rd Aug	124.6	149.2	169.5	14.3	19.7	13.6
Non-Food Credit	₹ Lakh crore	23rd Aug	124.3	149	169.2	14.8	19.9	13.6
10-Year Bond Yields	Per cent	Apr-Aug	7.3	7.1	7	1.2	-0.2	-0.1
Repo Rate	Per cent	18th Aug	5.4	6.5	6.5	1.4	1.1	0.0
Currency in Circulation	₹ Lakh crore	6th Sep	31.9	33.2	35.1	8.5	4.1	5.7
M0	₹ Lakh crore	6th Sep	40.9	44.5	46.5	10.5	8.8	4.5
Employment								
Net payroll additions under EPFO	Lakh	Apr-July	48.2	44.8	66.0	47.8	-7.1	47.2
No. of person demanded employment under MGNREGA	Crore	Apr-Aug	16.4	17.1	14.4	-17.3	4.0	-15.8
Urban Unemployment Rate	Per cent	Apr-Jun	7.6	6.6	6.6	-39.7	-13.2	0.0
Subscriber Additions: NPS	Lakh	Apr-Jun	1.83	1.79	2.5	-0.4	-2.2	41.5